

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Charter Township of Orion	County Oakland
Audit Date December 31, 2005	Opinion Date April 7, 2006	Date Accountant Report Submitted To State: June 8, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

Charter Township of Orion Oakland County, Michigan

**Financial Report
with Supplemental Information
December 31, 2005**

Charter Township of Orion

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Assets	14
Statement of Revenue, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16-17
Fiduciary Funds - Statement of Assets and Liabilities - Agency Funds	18
Notes to Financial Statements	19-35
Required Supplemental Information	36
Budgetary Comparison Schedule - General Fund	37-38
Budgetary Comparison Schedule - Major Special Revenue Funds	39-40
Note to Required Supplemental Information	41
Other Supplemental Information	42
Nonmajor Governmental Funds:	
Combining Balance Sheet	43-44
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	45-46
Fiduciary Funds - Combining Statement of Net Assets - Agency Funds	47



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Orion's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Orion's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 7, 2006

Charter Township of Orion

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Orion's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2005:

- State-shared revenue, our largest revenue source in the General Fund, was increased slightly by the State of Michigan for the first time in several years by approximately \$26,000 (1.2 percent) this year.
- Total fund balances related to the Township's governmental funds increased by approximately \$1.802 million due to continued development within the Township.
- In 2005, the Township designated an additional portion of fund balance to provide for a parking lot at Civic Center Park (\$300,000) and to provide landscaping for the Indianwood Road roundabout (\$70,500).

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of Orion Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside the government.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets (in thousands of dollars) compared to the prior year:

	2005	2004	Change	Percent
Assets				
Current assets	\$ 25,961	\$ 23,871	\$ 2,090	8.8%
Noncurrent assets	22,088	21,380	708	3.3%
Total assets	48,049	45,251	2,798	6.2%
Liabilities				
Current liabilities	8,095	7,776	319	4.1%
Long-term liabilities	154	251	(97)	-38.6%
Total liabilities	8,249	8,027	222	2.8%
Net Assets				
Invested in capital assets	22,088	21,380	708	3.3%
Restricted	3,404	2,976	428	14.4%
Unrestricted	14,308	12,868	1,440	11.2%
Total net assets	<u>\$ 39,800</u>	<u>\$ 37,224</u>	<u>\$ 2,576</u>	6.9%
	2005	2004	Change	Percent
Revenue				
Program revenue:				
Charges for services	\$ 1,822	\$ 1,625	197	12.1%
Operating grants and contributions	41	142	(101)	-71.1%
Capital grants and contributions	1,297	-	1,297	100.0%
General revenue:				
Property taxes and related fees	6,670	6,172	498	8.1%
State-shared revenue	2,238	2,212	26	1.2%
Unrestricted investment earnings	741	352	389	110.5%
Host fees	325	435	(110)	-25.3%
Lawsuit settlement	400	-	400	100.0%
Other revenue	149	248	(99)	-40.0%
Transfers	(313)	(500)	187	-37.4%
Total revenue	13,370	10,686	2,684	25.1%
Program Expenses				
General government	2,530	2,552	(22)	-0.9%
Public safety	5,737	5,415	322	5.9%
Public works	1,353	712	641	90.0%
Health and welfare	165	165	-	0.1%
Community and economic development	149	160	(11)	-6.9%
Recreation and culture	861	879	(18)	-2.1%
Total program expenses	10,795	9,883	912	9.2%
Change in Net Assets	<u>\$ 2,575</u>	<u>\$ 803</u>	<u>\$ 1,772</u>	2.2%

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The Township's total governmental revenues increased by approximately \$2.684 million, from \$10.686 million to \$13.370 million (25.1 percent) despite decreases in operating grant and host fee revenues. Interest income experienced its largest increase in several years due in large part to the eight quarter-point interest rate increases by the Federal Reserve Board in 2005, increasing by approximately \$389,000, from \$352,000 to \$741,000 (110.5 percent). Of the Township's total revenue for fiscal year 2005, property taxes comprised the largest segment, as was the case in 2004.

The Township's total governmental expenses increased approximately \$912,000, from \$9.883 million to \$10.795 million (9.2 percent). The majority of governmental expense is associated with the public safety function, which includes both fire and police services.

Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets (in thousands of dollars), compared to the prior year:

	2005	2004	Change	Percent
Assets				
Current assets	\$ 33,812	\$ 31,437	\$ 2,375	7.6%
Noncurrent assets	58,316	56,307	2,009	3.6%
Total assets	92,128	87,744	4,384	5.0%
Liabilities - Current liabilities	1,410	1,334	76	5.7%
Net Assets				
Invested in capital assets	34,079	34,047	32	0.1%
Restricted	23,122	21,122	2,000	9.5%
Unrestricted	33,517	31,241	2,276	7.3%
Total net assets	\$ 90,718	\$ 86,410	\$ 4,308	5.0%
Business-type Activities:				

	2005	2004	Change	Percent
Revenue				
Program revenue:				
Charges for services	\$ 8,080	\$ 6,223	\$ 1,857	29.8%
Operating expenses other than depreciation	(6,902)	(5,701)	(1,201)	21.1%
Depreciation	(1,591)	(1,570)	(21)	1.4%
Operating loss	(413)	(1,048)	635	-60.5%
Investment income	2,290	1,698	592	34.9%
Gain on sale of assets	6	-	6	100.0%
Capital contributions	2,112	1,502	610	40.6%
Transfers from other funds	313	500	(187)	-37.4%
Change in Net Assets	\$ 4,308	\$ 2,652	\$ 1,655	62.4%

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The Township's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 80 percent of Township residents, which comes from the Detroit water system. We provide sewage treatment to approximately 80 percent of Township residents, through a City of Detroit-owned and operated sewage treatment plant, administered through Oakland County. Water and sewer usage was up in 2005 from 2004 due to new development and hook-ups to the water and sewer system. Interest income reversed its downturn and increased \$592,000, from \$1.698 million to \$2.290 million (33.6 percent), due to the maturity of high-income investments that were reinvested at current interest rates, which increased significantly in 2005.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Orion Township board of trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for 2005 include the General Fund, the Fire Protection Fund, and the Police Protection Fund.

The General Fund pays for most of the Township's governmental services. However, the most significant governmental service is police and fire protection, which incurred expenses of \$4.4 million in 2005, which was an increase of \$149,000 (3.5 percent). These two services are entirely supported by special public safety millages, which are recorded in the respective Public Safety Funds. In addition, there are two capital improvement funds: the General Capital Improvement Fund and the Fire Capital Improvement Fund. The Township board designated \$300,000 from the General Capital Improvement Fund in 2005 for the future parks and recreation projects including the construction of a 100-space parking lot at Civic Center Park. The Fire Capital Improvement Fund received \$500,000 in 2005 from the Fire Protection Fund to be used for the construction of a new fire station in 2005.

General Fund Budgetary Highlights

Over the course of the year, the Township board made necessary budget adjustments to fund unanticipated expenses during the year. Budget amendments were made arising out of the settlement of the clerical union contract that provided for funding of postretirement health plan benefits. Amendments were also made as a result of an increase in attorney fees, and pre-payment for a senior center fund-raising event to be held in 2006. These amendments totaled \$160,252. However, due to the departments coming in under budget at year end, there was an overall favorable variance of approximately \$1.177 million from budget for General Fund expenditures.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2005, the Township had approximately \$56.2 million invested in a broad range of capital assets, including buildings, land, police and fire equipment, and water and sewer lines, among others. In addition, the Township has made certain investments in roads and drains within the Township.

The Township has no bonded outstanding debt as of the 2005 year end.

Economic Factors and Next Year's Budget

The Township's budget for next year calls for a reduction in property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to monitor its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the inflation rate or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow by less than inflation, before considering new property additions. However, the Headlee rollback will not apply for taxes collected in 2006 because the overall Township's property taxable values were equal to the rate of inflation and therefore there is no need for the millage to be rolled back. We anticipate that the water and sewer rates will not increase during 2006.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (248) 391-0304, extension 104 or via the Township's website at clerksoffice@oriontownship.org.

Charter Township of Orion

Statement of Net Assets December 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 10,812,235	\$ 14,028,661	\$ 24,840,896
Investments (Note 3)	8,715,793	16,309,158	25,024,951
Receivables - Net (Note 4)	5,708,004	3,543,806	9,251,810
Internal balances (Note 6)	70,096	(70,096)	-
Prepaid costs and other assets	655,064	-	655,064
Restricted assets (Note 1)	-	23,122,328	23,122,328
Capital and lateral fees receivable	-	1,115,396	1,115,396
Capital assets - Nondepreciable (Note 5)	4,821,929	-	4,821,929
Capital assets - Subject to depreciation - Net (Note 5)	17,265,932	34,078,440	51,344,372
Total assets	48,049,053	92,127,693	140,176,746
Liabilities			
Accounts payable	1,061,336	1,002,470	2,063,806
Accrued and other liabilities	127,578	37,267	164,845
Deferred revenue (Note 4)	6,844,142	369,818	7,213,960
Noncurrent liabilities (Note 7):			
Due within one year	62,497	-	62,497
Due in more than one year	153,590	-	153,590
Total liabilities	8,249,143	1,409,555	9,658,698
Net Assets			
Invested in capital assets	22,087,861	34,078,440	56,166,301
Restricted:			
Fire protection	626,893	-	626,893
Liquor law enforcement	48,411	-	48,411
Police protection	1,742,098	-	1,742,098
Safety path	987,007	-	987,007
Capital projects (Note 1)	-	23,122,328	23,122,328
Unrestricted	14,307,640	33,517,370	47,825,010
Total net assets	<u>\$ 39,799,910</u>	<u>\$ 90,718,138</u>	<u>\$ 130,518,048</u>

Charter Township of Orion

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,529,664	\$ 386,787	\$ -	\$ 945,650
Public safety	5,736,772	1,073,727	-	-
Public works	1,353,345	11,812	18,840	351,419
Health and welfare	165,168	260	15,384	-
Community and economic development	149,458	131,567	7,271	-
Recreation and culture	860,405	218,343	-	-
Total governmental activities	10,794,812	1,822,496	41,495	1,297,069
Business-type activities - Water and sewer	8,493,656	8,080,298	-	2,112,048
Total primary government	<u>\$ 19,288,468</u>	<u>\$ 9,902,794</u>	<u>\$ 41,495</u>	<u>\$ 3,409,117</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Eagle Valley host fee				
Lawsuit settlement				
Miscellaneous				
Transfers (Note 6)				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year (as restated, Note 1)				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2005

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,197,227)	\$ -	\$ (1,197,227)
(4,663,045)	-	(4,663,045)
(971,274)	-	(971,274)
(149,524)	-	(149,524)
(10,620)	-	(10,620)
(642,062)	-	(642,062)
(7,633,752)	-	(7,633,752)
-	1,698,690	1,698,690
(7,633,752)	1,698,690	(5,935,062)
6,669,770	-	6,669,770
2,237,659	-	2,237,659
740,889	2,290,304	3,031,193
325,487	-	325,487
400,000	-	400,000
148,724	6,009	154,733
(313,267)	313,267	-
10,209,262	2,609,580	12,818,842
2,575,510	4,308,270	6,883,780
37,224,400	86,409,868	123,634,268
\$ 39,799,910	\$ 90,718,138	\$ 130,518,048

Charter Township of Orion

Governmental Funds Balance Sheet December 31, 2005

	General Fund	Fire Protection Fund	Police Protection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 10,812,236	\$ -	\$ -	\$ -	\$ 10,812,236
Investments (Note 3)	5,703,335	-	-	3,012,458	8,715,793
Receivables:					
Property taxes	1,141,664	1,097,160	2,025,464	263,091	4,527,379
Interest	142,578	-	-	-	142,578
Other	-	-	-	435,667	435,667
Due from other governmental units	392,511	-	-	-	392,511
Due from other funds (Note 6)	488,511	3,738,929	3,590,994	7,139,453	14,957,887
Other assets	618,759	-	-	-	618,759
Prepaid expenses	36,305	-	-	-	36,305
Total assets	<u>\$ 19,335,899</u>	<u>\$ 4,836,089</u>	<u>\$ 5,616,458</u>	<u>\$ 10,850,669</u>	<u>\$ 40,639,115</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 164,315	\$ 17,117	\$ 578,679	\$ 301,225	\$ 1,061,336
Other liabilities	88,119	37,909	-	-	126,028
Due to other funds (Note 6)	12,030,270	2,439,106	-	418,415	14,887,791
Due to other governmental units	1,550	-	-	-	1,550
Deferred revenue (Note 4)	1,653,899	1,715,064	3,247,270	461,598	7,077,831
Total liabilities	13,938,153	4,209,196	3,825,949	1,181,238	23,154,536
Fund Balances					
Reserved for prepaid expenses	36,305	-	-	-	36,305
Reserved for liquor law enforcement	-	-	48,411	-	48,411
Designated fund balance (Note 9)	105,850	-	1,179,115	5,909,152	7,194,117
Unreserved, reported in:					
General Fund	5,255,591	-	-	-	5,255,591
Special Revenue Funds	-	626,893	562,983	56,553	1,246,429
Capital Projects Funds	-	-	-	3,703,726	3,703,726
Total fund balances	5,397,746	626,893	1,790,509	9,669,431	17,484,579
Total liabilities and fund balances	<u>\$ 19,335,899</u>	<u>\$ 4,836,089</u>	<u>\$ 5,616,458</u>	<u>\$ 10,850,669</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					22,087,861
Receivables are expected to be collected over several years and are not available to pay for current year expenditures					
net of reserve for uncollectibles					79,838
State revenue-sharing receivable is expected to be collected over the next year and is not available to pay for current year expenditures					363,719
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(216,087)
Net assets of governmental activities					<u>\$ 39,799,910</u>

Charter Township of Orion

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2005

	General Fund	Fire Protection Fund	Police Protection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Taxes and penalties	\$ 1,498,907	\$ 1,650,510	\$ 3,124,275	\$ 396,078	\$ 6,669,770
Licenses and permits	1,088,875	-	14,943	18,840	1,122,658
Eagle Valley fees	-	-	-	325,487	325,487
Federal grants	16,437	-	-	-	16,437
State sources	2,232,452	1,631	3,252	-	2,237,335
Interest	411,468	52,718	105,563	171,140	740,889
Special assessments	-	-	-	34,127	34,127
Other	834,703	1,450	328,484	13,984	1,178,621
Total revenue	6,082,842	1,706,309	3,576,517	959,656	12,325,324
Expenditures					
General government	2,389,616	-	-	-	2,389,616
Public safety	908,870	1,152,190	3,251,268	30,868	5,343,196
Public works	113,099	-	-	-	113,099
Health and welfare	226,768	-	-	-	226,768
Recreation and culture	766,728	-	-	-	766,728
Capital outlay	90,694	3,356	-	1,618,465	1,712,515
Other	-	-	-	58,222	58,222
Total expenditures	4,495,775	1,155,546	3,251,268	1,707,555	10,610,144
Excess of Revenue Over (Under) Expenditures	1,587,067	550,763	325,249	(747,899)	1,715,180
Other Financing Sources (Uses)					
Transfer in	340,575	-	-	719,932	1,060,507
Transfer out	(533,199)	(500,000)	-	(340,575)	(1,373,774)
Lawsuit settlement	-	-	-	400,000	400,000
Total other financing sources (uses)	(192,624)	(500,000)	-	779,357	86,733
Net Change in Fund Balances	1,394,443	50,763	325,249	31,458	1,801,913
Fund Balances - January 1, 2005	4,003,303	576,130	1,465,260	9,637,973	15,682,666
Fund Balances - December 31, 2005	\$ 5,397,746	\$ 626,893	\$ 1,790,509	\$ 9,669,431	\$ 17,484,579

Charter Township of Orion

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 1,801,913
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(238,196)
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Revenue associated with contributed assets is recorded in the statement of activities; it is not reported in the funds	945,650
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Certain revenues are recorded in the statement of activities when the revenue is earned; they are not reported in the funds until collected or collectible within 60 days of year end	12,612
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Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	(34,577)
--	----------

Elimination of personal property tax utility multiplier liability is recorded in the statement of activities; it is not reported in the funds	159,000
---	---------

Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(70,892)</u>
---	-----------------

Change in Net Assets of Governmental Activities	<u>\$ 2,575,510</u>
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Charter Township of Orion

Proprietary Funds Statement of Net Assets December 31, 2005

	Enterprise - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 14,028,661
Investments	16,309,158
Receivables - Net:	
Water and sewer billings	1,879,374
Interest	1,133,554
Special assessments	530,878
Total current assets	33,881,625
Noncurrent assets:	
Restricted assets (Note 1)	23,122,328
Capital and lateral fees receivable	1,115,396
Property and equipment - Net (Note 5)	34,078,440
Total noncurrent assets	58,316,164
Total assets	92,197,789
Liabilities - Current liabilities	
Accounts payable	1,002,470
Due to other funds	70,096
Other liabilities	37,267
Deferred revenue	369,818
Total liabilities	1,479,651
Net Assets	
Investment in capital assets - Net of related debt	34,078,440
Restricted (Note 1)	23,122,328
Unrestricted	33,517,370
Total net assets	<u><u>\$ 90,718,138</u></u>

Charter Township of Orion

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Enterprise - Water and Sewer Fund
Operating Revenue	
Water charges	\$ 4,352,286
Sewer charges	3,422,709
Water connection charges	123,504
Charges for services	30,948
Other operating revenue	<u>150,851</u>
Total operating revenue	8,080,298
Operating Expenses	
Cost of water and sewage disposal	5,476,566
Depreciation	1,591,299
Salaries and fringe benefits	891,250
Utilities	29,692
Insurance	47,990
Professional services	96,654
Tools and supplies	155,000
Repairs and maintenance	128,861
Other operating expenses	<u>76,344</u>
Total operating expenses	<u>8,493,656</u>
Operating Loss	(413,358)
Nonoperating Income	
Investment income	2,290,304
Gain on sale of assets	<u>6,009</u>
Income - Before capital contributions and transfers	1,882,955
Capital Contributions	
Capital and lateral charges	896,878
Developer contributions	<u>1,215,170</u>
Total capital contributions	2,112,048
Transfers	<u>313,267</u>
Change in Net Assets	4,308,270
Net Assets - January 1, 2005	<u>86,409,868</u>
Net Assets - December 31, 2005	<u>\$ 90,718,138</u>

Charter Township of Orion

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2005

	Enterprise - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 7,529,411
Payments to suppliers	(5,894,253)
Payments to employees	(896,592)
Internal activity - Net payments to other funds	(804,813)
Other receipts	22,543
Net cash used in operating activities	(43,704)
Cash Flows from Noncapital and Related Financing Activities - Transfers	313,267
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(407,364)
Loss on sale of capital assets	6,009
Collection of special assessments	72,284
Capital and lateral charges	896,878
Net cash provided by capital and related financing activities	567,807
Cash Flows from Investing Activities	
Investment income	4,155,461
Proceeds from sale of investment securities	(3,510,951)
Net cash provided by investing activities	644,510
Net Increase in Cash and Cash Equivalents	1,481,880
Cash and Cash Equivalents - Beginning of year	35,669,109
Cash and Cash Equivalents - End of year	\$ 37,150,989
Statement of Net Assets Classification of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 14,028,661
Restricted assets - Cash and cash equivalents	23,122,328
Total cash and cash equivalents	\$ 37,150,989

Charter Township of Orion

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2005

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (413,358)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	1,591,299
Changes in assets and liabilities:	
Receivables	(491,814)
Due to other funds	(804,812)
Accounts payable	116,854
Accrued and other liabilities	(5,342)
Due from other funds	<u>(36,531)</u>
Net cash used in operating activities	<u><u>\$ (43,704)</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2005, the Water and Sewer Fund received \$1,215,170 of lines donated by developers.

Charter Township of Orion

Fiduciary Funds Statement of Assets and Liabilities - Agency Funds December 31, 2005

Assets - Cash	\$ 6,572,376
Liabilities	
Due to other governmental units	\$ 4,613,897
Deposits and building bonds	1,896,774
Other liabilities	<u>61,705</u>
 Total liabilities	 \$ 6,572,376

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Orion (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Orion:

Reporting Entity

The Charter Township of Orion is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township; there are no component units that should be included in the Township's financial statements.

Jointly Governed Organizations

The Township is a member of the North Oakland Transportation Authority, which provides transportation services to the residents of Orion Township, Oakland Township, and Oxford Township. The participating communities provide annual funding for its operations. During the current year, the Township contributed approximately \$26,700 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the North Oakland Transportation Authority can be obtained from the administrative offices at 1370 South Lapeer Road, Oxford, MI 48371.

The Township is also a member of the Paint Creek Trailways Commission, which was organized in 1981 for the purposes of owning, developing, maintaining, and otherwise operating certain nonmotorized public trails within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township (8 percent), City of Rochester (11 percent), City of Rochester Hills (37 percent), and Oakland Township (44 percent), provide annual funding for its operations. During the current year, the Township contributed approximately \$19,900 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The Township does have an equity interest in the joint venture. Complete financial statements for the Paint Creek Trailways Commission can be obtained from the administrative offices at 4393 Collins Road, Rochester, MI 48306.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township is also a member of the Polly Ann Trailway Management Council, which was organized in 1997 for the purposes of owning, developing, maintaining, and otherwise operating nonmotorized public trails within the property contained within the boundaries of the Grand Trunk Western Railroad Company's railroad corridor. The Grand Trunk Western Railroad Company's railroad corridor is within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township, Oxford Township, Addison Township, and Villages of Oxford and Leonard provide annual funding for its operations. During the current year, the Township contributed approximately \$30,400 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Polly Ann Trailway Management Council can be obtained from the administrative offices at 23 E. Elmwood, Leonard, MI 48367.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Protection Fund - This fund accounts for all revenue and expenditures for the Township's fire operations, including millage collection. The Township fire department also provides fire fighting services to the communities of Lake Angelus and Oakland Township on a contractual basis.

Police Protection Fund - This fund accounts for the Township's police protection contracted with Oakland County. This protection is funded through a special millage.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following proprietary fund:

Enterprise Fund (Water and Sewer Fund) - The Water and Sewer Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Additionally, the Township reports the following fund types:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales of water and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended December 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$1.65 billion (a portion of which is abated and a portion of which is captured by the Village of Lake Orion's DDA), on which taxes levied consisted of .9401 mills for operating purposes, 2.0000 mills for police services, 1.0000 mills for fire service, and .2403 for safety path. This resulted in \$1.50 million for operating, \$3.12 million for police services, \$1.65 million for fire service, and approximately \$396,000 for safety path. These amounts are recognized in the respective General, Special Revenue, and Capital Projects Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - According to the Township's ordinance, certain investments are restricted for future major repairs, replacements, or improvements to the water and sewer system. These amounts have been classified as restricted assets and fund balance has been restricted.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, drains, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Road usage rights	20 years
Water system	40 years
Sewer system	40 years
Drains	40 years
Buildings and improvements	40 years
Safety path	15 years
Machinery, furniture, and equipment	5 years
Office equipment	5 years
Vehicles	5 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The governmental activities net assets as of January 1, 2005 have been restated as follows for the reporting of the safety paths:

	Governmental Activities
Net assets, as previously reported	\$ 27,959,237
Capital assets - Net of accumulated depreciation	<u>9,265,163</u>

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall - January 1, 2005	\$ (883,515)
Current year building permit revenue	913,269
Related expenses:	
Direct costs	(878,024)
Estimated indirect costs	<u>(134,591)</u>
Net current year activity	<u>(99,346)</u>
Cumulative shortfall - December 31, 2005	<u>\$ (982,861)</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated 25 banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investments in all of the allowable vehicles mentioned above, except for investments in commercial paper, which are required to be at the highest classification established at the date of purchase versus within the two highest ratings. In addition, the Township's investment policy indicates that the treasurer shall diversify the investments by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than 60 percent to 80 percent of the total investment portfolio will be invested in a single security type or more than 30 percent with a single financial institution. Also, the Township's investments may not exceed 10 percent of the total assets of a single financial institution.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$71,510,887 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Mutual funds	\$ 8,097,168	8.0 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy further limits its investment choices to commercial paper that is the top rating issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$ 7,469,081	AAA	Standard and Poor's
Mutual funds	76,253	AA	Standard and Poor's
Mutual funds	232,774	A	Standard and Poor's
Mutual funds	220,734	BBB	Standard and Poor's
Mutual funds	16,052	BB	Standard and Poor's
Mutual funds	82,273	Not Rated	Standard and Poor's

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Fire Protection Fund	Police Protection Fund	Nonmajor and Agency Funds	Total	Enterprise - Water and Sewer
Receivables:						
Taxes	\$ 1,141,664	\$ 1,097,160	\$ 2,025,464	\$ 263,091	\$ 4,527,379	\$ -
Accounts	-	-	-	-	-	-
State revenue sharing	741,554	-	-	-	741,554	-
Intergovernmental	14,676	-	-	-	14,676	-
Water and sewer billings	-	-	-	-	-	1,879,374
Special assessments	-	-	-	-	-	530,878
Interest and other	142,578	-	-	435,667	578,245	1,133,554
Allowance for doubtful accounts	(35,255)	(9,029)	(109,566)	-	(153,850)	-
Net receivables	\$ 2,005,217	\$ 1,088,131	\$ 1,915,898	\$ 698,758	\$ 5,708,004	\$ 3,543,806

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The deferred revenue in the governmental activities represents property taxes levied on December 1, 2005, but recognized as revenue in the year ending December 31, 2006, when the proceeds of the levy are budgeted and available for financing operations. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Property taxes	\$ 233,689	\$ 6,844,142

Business-type funds do not defer revenue that is unavailable and only record revenue that is earned. At the end of the current fiscal year, the business-type fund had deferred revenue recorded that was unearned. This unearned revenue represents accrued interest income that will only be due to the Township if the receivable is not paid off early. At the end of the current fiscal year, the deferred revenue recorded on the business-type balance sheet is as follows:

	Unavailable	Unearned
Interest	\$ -	\$ 369,818

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2005 (as restated in Note 1)	Additions	Disposals and Adjustments	Balance December 31, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,602,204	\$ 722,517	\$ -	\$ 2,324,721
Land improvements	2,399,571	97,637	-	2,497,208
Subtotal	4,001,775	820,154	-	4,821,929
Capital assets being depreciated:				
Land improvements	1,771,994	70,127	-	1,842,121
Buildings and improvements	5,046,641	1,089,798	-	6,136,439
Road usage rights	3,859,324	10,000	-	3,869,324
Drains	255,993	9,065	-	265,058
Safety path	17,228,346	556,424	-	17,784,770
Vehicles	3,358,808	71,187	-	3,429,995
Furniture and equipment	1,533,840	138,806	33,443	1,639,203
Subtotal	33,054,946	1,945,407	33,443	34,966,910
Accumulated depreciation:				
Land improvements	728,603	130,219	-	858,822
Buildings and improvements	1,526,166	139,788	-	1,665,954
Road usage rights	1,897,269	193,216	-	2,090,485
Drains	13,045	6,513	-	19,558
Safety path	7,963,183	1,171,435	-	9,134,618
Vehicles	2,190,169	345,792	-	2,535,961
Furniture and equipment	1,357,880	70,383	32,683	1,395,580
Subtotal	15,676,315	2,057,346	32,683	17,700,978
Net capital assets being depreciated	17,378,631	(111,939)	760	17,265,932
Net capital assets	\$ 21,380,406	\$ 708,215	\$ 760	\$ 22,087,861

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets (Continued)

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Business-type Activities				
Capital assets being depreciated:				
Land improvements	\$ 228,112	\$ -	\$ -	\$ 228,112
Water system	29,782,534	548,366	-	30,330,900
Sewer system	28,869,276	1,022,378	-	29,891,654
Buildings	518,858	-	-	518,858
Machinery and equipment	674,903	25,011	-	699,914
Office equipment	62,715	-	-	62,715
Vehicles	507,881	26,779	28,027	506,633
Subtotal	60,644,279	1,622,534	28,027	62,238,786
Accumulated depreciation:				
Land improvements	101,298	11,354	-	112,652
Water system	8,915,325	734,574	-	9,649,899
Sewer system	16,120,614	738,939	-	16,859,553
Buildings	518,857	-	-	518,857
Machinery and equipment	521,067	29,413	-	550,480
Office equipment	62,715	-	-	62,715
Vehicles	357,198	77,019	28,027	406,190
Subtotal	26,597,074	1,591,299	28,027	28,160,346
Net capital assets	<u>\$ 34,047,205</u>	<u>\$ 31,235</u>	<u>\$ -</u>	<u>\$ 34,078,440</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 195,102
Public safety	390,298
Public works	1,371,165
Health and welfare	18,548
Recreation and culture	82,233
Total governmental activities	<u>\$ 2,057,346</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets (Continued)

Construction Commitments - The Township has an active construction project at year end for the fire station. At year end, the Township's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Fire Station	\$ 1,133,047	\$ 212,615
Brown Road Sanitary Sewer	-	3,978,263

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Recording Due From	Fund Recording Due To	Amount
General Fund	Safety Path Fund	\$ 121,816
	Host Fee Fund	296,599
	Water and Sewer Fund	70,096
Total General Fund		488,511
Fire Protection Fund	General Fund	3,738,929
Police Protection Fund	General Fund	3,590,994
Other nonmajor governmental funds:		
Keatington Mill Lake Lights Fund	General Fund	2,196
Elkhorn Lake Fund	General Fund	12,331
Square Lake Fund	General Fund	13,507
Square Lake Algae Fund	General Fund	13,275
Lake Orion Canal Fund	General Fund	14,566
Mill Lake Chloride	General Fund	1,083
Compensated Absence Fund	General Fund	50,000
Capital Improvement Fund	General Fund	4,553,685
Fire Capital Improvement Fund	Fire Protection Fund	2,439,106
Friendship Park Fund	General Fund	39,704
Total other nonmajor governmental funds		7,139,453
Total interfund receivables		\$ 14,957,887

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. In addition, several funds do not have separate bank accounts and, therefore, the General Fund holds their respective cash and investments.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 313,267
	Other governmental funds	219,932
Fire Protection Fund	Fire Capital Improvement Fund	500,000
Other governmental funds	General Fund	340,575
Total		<u>\$ 1,373,774</u>

The transfer from the General Fund to the Water and Sewer Fund represents transfers to help defray the cost for the Hi Hill project. The transfer from the General Fund to the other governmental fund (Capital Improvement Fund) represents the use of unrestricted resources to finance future construction projects. The transfer from the Fire Protection Fund to the Fire Capital Improvement Fund represents the movement of resources to be used for fire capital improvements. The transfer from the other governmental funds to the General Fund includes a transfer of unrestricted resources from the Host Fee Fund to reimburse the General Fund for its transfer to the Water and Sewer Fund which helped defray the costs of the Hi Hill project and a transfer of unrestricted resources from the Safety Path Improvement Fund to reimburse the General Fund for expenditures.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 7 - Noncurrent Liabilities

Noncurrent liabilities consist of the following:

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities				
Property tax tribunal cases	\$ 159,000	\$ (159,000)	\$ -	\$ -
Self-insurance reserve	26,732	14,373	41,105	-
Accumulated employee compensated absences	<u>118,463</u>	<u>56,519</u>	<u>174,982</u>	<u>62,497</u>
Total governmental activities	<u>\$ 145,195</u>	<u>\$ 70,892</u>	<u>\$ 216,087</u>	<u>\$ 62,497</u>

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits provided to employees, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Township.

Charter Township of Orion

Notes to Financial Statements December 31, 2005

Note 8 - Risk Management (Continued)

The Township estimates the liability for general claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are reflected in the government activities column on the statement of net assets. Changes in the estimated liability for the past two years were as follows:

	2005	2004
Estimated liability - Beginning of year	\$ 26,732	\$ 4,050
Estimated claims incurred, including changes in estimates	42,634	31,431
Claim payments	(28,261)	(8,749)
Estimated liability - End of year	<u>\$ 41,105</u>	<u>\$ 26,732</u>

Note 9 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds that management has designated:

	General Fund	Police Protection Fund	Fire Capital Improvement Fund	Capital Improvement Fund	Safety Path Improvement Fund
Designated for:					
Subsequent year's expenditures	\$ 105,850	\$ -	\$ 1,371,661	-	\$ 293,507
Future road widening	-	-	-	3,884,067	-
Repair and maintenance	-	-	-	-	359,917
Retention of officers	-	1,179,115	-	-	-
Total designated	<u>\$ 105,850</u>	<u>\$ 1,179,115</u>	<u>\$ 1,371,661</u>	<u>\$ 3,884,067</u>	<u>\$ 653,424</u>

Note 10 - Defined Contribution Pension Plan

The Township provides pension benefits to substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months from the time of employment. As established by the Township board of trustees, the Township contributes 10 percent of most employees' gross earnings (with varying rates for DPW employees).

The Township's contributions for each employee are fully vested after 20 months of continuous service. Employees may contribute to the plan on a voluntary basis. In accordance with these requirements, the Township contributed \$247,081 during the current year.

Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The plan allows the Township to contribute, on behalf of its eligible employees, portions of its employees' salary and/or compensated absences to meet its employees' postemployment health care needs. For the fiscal year ended December 31, 2005, the Township made payments for postemployment health benefit premiums of \$104,954.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Required Supplemental Information

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,577,267	\$ 1,577,267	\$ 1,498,907	\$ (78,360)
Licenses and permits	804,200	804,200	1,088,875	284,675
Federal grants	183,680	183,680	16,437	(167,243)
State sources	2,227,432	2,227,432	2,232,452	5,020
Interest	132,500	132,500	411,468	278,968
Other	583,015	583,015	834,703	251,688
Transfers in	527,560	527,560	340,575	(186,985)
Total revenue	6,035,654	6,035,654	6,423,417	387,763
Expenditures				
General government:				
Township Board	44,285	52,355	50,243	2,112
Supervisor	278,178	281,928	264,884	17,044
Elections	60,000	60,000	36,299	23,701
Assessing	470,150	482,150	385,733	96,417
Attorney fees	160,000	240,000	201,565	38,435
Finance	35,000	35,000	26,850	8,150
Clerk	415,308	437,558	405,938	31,620
Board of Review	4,000	4,000	974	3,026
Treasurer	300,503	313,303	289,307	23,996
Building and grounds	339,525	357,000	334,148	22,852
Drainage projects	9,000	20,800	17,893	2,907
Other general services	633,021	664,246	375,782	288,464
Total general government	2,748,970	2,948,340	2,389,616	558,724
Public safety:				
Zoning Board of Appeals	12,050	12,050	9,476	2,574
Building inspection	962,810	983,210	877,194	106,016
Planning Commission	29,830	29,830	21,811	8,019
Civil defense - Tornado sirens	400	400	389	11
Total public safety	1,005,090	1,025,490	908,870	116,620
Public works - Highways and streets	190,000	190,000	113,099	76,901

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Health and welfare:				
Community development block grant	\$ 155,880	\$ 155,880	\$ 40,540	\$ 115,340
Community services	54,000	54,000	22,012	31,988
Senior center	183,550	192,852	164,216	28,636
Total health and welfare	393,430	402,732	226,768	175,964
Recreation and cultural - Parks and recreation	834,132	840,082	766,728	73,354
Capital outlay	144,100	122,425	90,694	31,731
Transfers to other funds	719,932	676,907	533,199	143,708
Total expenditures	6,035,654	6,205,976	5,028,974	1,177,002
Excess of Revenue Over (Under) Expenditures	-	(170,322)	1,394,443	1,564,765
Fund Balance - January 1, 2005	3,771,236	4,003,303	4,003,303	-
Fund Balance - December 31, 2005	\$ 3,754,861	\$ 3,832,981	\$ 5,397,746	\$ 1,564,765

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2005

Fire Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,677,765	\$ 1,677,765	\$ 1,650,510	\$ (27,255)
State sources	1,500	1,500	1,631	131
Interest	35,000	35,000	52,718	17,718
Other	750	750	1,450	700
Total revenue	1,715,015	1,715,015	1,706,309	(8,706)
Expenditures				
Salaries and employee benefits	949,310	949,310	883,403	65,907
Supplies	34,750	34,750	32,113	2,637
Utilities	39,000	39,000	32,736	6,264
Repairs and maintenance	87,000	89,150	77,010	12,140
Insurance	110,755	110,755	91,047	19,708
Capital outlay	20,000	20,000	3,356	16,644
Other public safety expenditures	70,200	68,050	35,881	32,169
Transfers to other funds	404,000	500,000	500,000	-
Total expenditures	1,715,015	1,811,015	1,655,546	155,469
Excess of Revenue Over (Under) Expenditures	-	(96,000)	50,763	146,763
Fund Balance - January 1, 2005	678,164	576,130	576,130	-
Fund Balance - December 31, 2005	<u>\$ 678,164</u>	<u>\$ 480,130</u>	<u>\$ 626,893</u>	<u>\$ 146,763</u>

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2005

Police Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 3,129,880	\$ 3,129,880	\$ 3,124,275	\$ (5,605)
Licenses and permits	-	-	14,943	14,943
State sources	-	-	3,252	3,252
Interest	84,000	84,000	105,563	21,563
Other	231,522	231,522	328,484	96,962
Total revenue	3,445,402	3,445,402	3,576,517	131,115
Expenditures				
Salaries and employee benefits	3,140,476	3,140,176	3,139,874	302
Supplies	9,000	13,700	11,850	1,850
Utilities	95,960	96,310	94,942	1,368
Repairs and maintenance	5,000	5,000	1,508	3,492
Capital outlay	20,000	15,250	-	15,250
Other public safety expenditures	174,966	174,966	3,094	171,872
Total expenditures	3,445,402	3,445,402	3,251,268	194,134
Excess of Revenue Over Expenditures	-	-	325,249	325,249
Fund Balance - January 1, 2005	1,409,923	1,465,260	1,465,260	-
Fund Balance - December 31, 2005	<u>\$ 1,409,923</u>	<u>\$ 1,465,260</u>	<u>\$ 1,790,509</u>	<u>\$ 325,249</u>

Charter Township of Orion

Note to Required Supplemental Information December 31, 2005

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, with the exception of operating transfers, which have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end. The annual budget is prepared by the Township supervisor; a public hearing is held by September 30 and adopted by the Township board by October 31 of the preceding year; and subsequent amendments are approved by the Township board. During the year, the budget was amended in a legally permissible manner. The final budget amendments that involved transfers to restrict monies in the appropriate fund for 2006 expenditures were approved subsequent to December 31, 2005. The impact of these amendments increased budgeted transfers in within the Fire Capital Improvement Fund by \$96,000 and increased transfers out within the Fire Fund by \$96,000. The Friendship Park Fund revenue was also increased by \$2,300.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Deficits - The Square Lake Fund had an accumulated fund deficit of \$1,700 at December 31, 2005. The deficit will be eliminated during the year ending December 31, 2006 through the collection of special assessments.

Other Supplemental Information

Charter Township of Orion

	Special Revenue Funds						
	Keatington					Mill Lake	
	Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Square Lake Algae Fund	Lake Orion Canal Fund	Chloride Fund	Compensated Absence Fund
Assets							
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property taxes receivable	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Due from other funds	2,196	12,331	13,507	13,275	14,566	1,083	50,000
Total assets	<u>\$ 2,196</u>	<u>\$ 12,331</u>	<u>\$ 13,507</u>	<u>\$ 13,275</u>	<u>\$ 14,566</u>	<u>\$ 1,083</u>	<u>\$ 50,000</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ -	\$ 307	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	1,898	9,364	14,900	8,321	14,566	1,049	-
Total liabilities	1,898	9,364	15,207	8,321	14,566	1,049	-
Fund Balances - Unreserved							
Designated for subsequent year's expenditures	-	-	-	-	-	-	-
Designated for repairs and maintenance	-	-	-	-	-	-	-
Designated for future road widening	-	-	-	-	-	-	-
Undesignated	298	2,967	(1,700)	4,954	-	34	50,000
Total fund balances	298	2,967	(1,700)	4,954	-	34	50,000
Total liabilities and fund balances	<u>\$ 2,196</u>	<u>\$ 12,331</u>	<u>\$ 13,507</u>	<u>\$ 13,275</u>	<u>\$ 14,566</u>	<u>\$ 1,083</u>	<u>\$ 50,000</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005**

Capital Projects Funds					
Host Fee Fund	Capital Improvement Fund	Friendship Park Fund	Fire Capital Improvement Fund	Safety Path Improvement Fund	Total Nonmajor Governmental Funds
\$ 1,725,308	\$ -	\$ -	\$ -	\$ 1,287,150	\$ 3,012,458
-	-	-	-	263,091	263,091
22,807	400,000	-	-	12,860	435,667
-	4,553,685	39,704	2,439,106	-	7,139,453
<u>\$ 1,748,115</u>	<u>\$ 4,953,685</u>	<u>\$ 39,704</u>	<u>\$ 2,439,106</u>	<u>\$ 1,563,101</u>	<u>\$ 10,850,669</u>
\$ -	\$ 20,390	\$ -	\$ 237,750	\$ 42,778	\$ 301,225
296,599	-	-	-	121,816	418,415
-	-	-	-	411,500	461,598
296,599	20,390	-	237,750	576,094	1,181,238
-	-	-	1,371,661	293,507	1,665,168
-	-	-	-	359,917	359,917
-	3,884,067	-	-	-	3,884,067
1,451,516	1,049,228	39,704	829,695	333,583	3,760,279
1,451,516	4,933,295	39,704	2,201,356	987,007	9,669,431
<u>\$ 1,748,115</u>	<u>\$ 4,953,685</u>	<u>\$ 39,704</u>	<u>\$ 2,439,106</u>	<u>\$ 1,563,101</u>	<u>\$ 10,850,669</u>

Charter Township of Orion

	Special Revenue Funds						
	Keatington Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Square Lake Algae Fund	Lake Orion Canal Fund	Mill Lake Chloride Fund	Compensated Absence Fund
Revenue							
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Eagle Valley fees	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Special assessments	1,898	9,181	14,019	8,105	-	924	-
Other	-	-	-	-	800	-	-
Total revenue	1,898	9,181	14,019	8,105	800	924	-
Expenditures							
Utilities	1,899	-	16,641	3,151	-	-	-
Repairs and maintenance	-	6,287	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other	-	-	-	-	7,200	890	-
Total expenditures	1,899	6,287	16,641	3,151	7,200	890	-
Excess of Revenue Over (Under)							
Expenditures	(1)	2,894	(2,622)	4,954	(6,400)	34	-
Other Financing Sources (Uses)							
Operating transfer in	-	-	-	-	-	-	-
Operating transfer out	-	-	-	-	-	-	-
Lawsuit settlement	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Net Change in Fund Balances	(1)	2,894	(2,622)	4,954	(6,400)	34	-
Fund Balances - January 1, 2005	299	73	922	-	6,400	-	50,000
Fund Balances (Deficit) - December 31, 2005	<u>\$ 298</u>	<u>\$ 2,967</u>	<u>\$ (1,700)</u>	<u>\$ 4,954</u>	<u>\$ -</u>	<u>\$ 34</u>	<u>\$ 50,000</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2005

Capital Projects Funds					
Host Fee Fund	Capital Improvement Fund	Friendship Park Fund	Fire Capital Improvement Fund	Safety Path Improvement Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 396,078	\$ 396,078
325,487	-	-	-	-	325,487
55,746	-	-	73,457	41,937	171,140
-	-	-	-	-	34,127
-	-	-	-	32,024	32,824
381,233	-	-	73,457	470,039	959,656
-	-	-	-	-	21,691
-	-	-	23,690	-	29,977
-	207,567	12,280	1,033,394	365,224	1,618,465
3,925	-	-	-	25,407	37,422
3,925	207,567	12,280	1,057,084	390,631	1,707,555
377,308	(207,567)	(12,280)	(983,627)	79,408	(747,899)
-	219,932	-	500,000	-	719,932
(313,267)	-	-	-	(27,308)	(340,575)
-	400,000	-	-	-	400,000
(313,267)	619,932	-	500,000	(27,308)	779,357
64,041	412,365	(12,280)	(483,627)	52,100	31,458
1,387,475	4,520,930	51,984	2,684,983	934,907	9,637,973
\$ 1,451,516	\$ 4,933,295	\$ 39,704	\$ 2,201,356	\$ 987,007	\$ 9,669,431

Charter Township of Orion

Other Supplemental Information Fiduciary Funds - Combining Statement of Net Assets Agency Funds December 31, 2005

	Trust and Agency Fund	Tax Collection Fund	Indianwood Lake Board Fund	Total
Assets - Cash	<u>\$ 1,911,292</u>	<u>\$ 4,639,367</u>	<u>\$ 21,717</u>	<u>\$ 6,572,376</u>
Liabilities				
Due to other governmental units	\$ -	\$ 4,522,973	\$ 90,924	\$ 4,613,897
Deposits and building bonds	1,896,774	-	-	1,896,774
Due to other funds		69,207	(69,207)	-
Other liabilities	<u>14,518</u>	<u>47,187</u>	<u>-</u>	<u>61,705</u>
Total liabilities	<u>\$ 1,911,292</u>	<u>\$ 4,639,367</u>	<u>\$ 21,717</u>	<u>\$ 6,572,376</u>

April 7, 2006

To the Board of Trustees
Charter Township of Orion
2525 Joslyn Road
Lake Orion, MI 48360

Dear Board Members:

We recently completed the audit of the financial statements of the Charter Township of Orion for the year ended December 31, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration.

Financial Results

For the year ended December 31, 2005, the Township's General Fund fund balance increased by approximately \$1,394,000. Overall, revenues increased approximately \$880,000 from the prior year. Expenditures decreased slightly from 2004 to 2005 by approximately \$600. As a result, there was a net increase to fund balance. The Township's increased revenue was mainly due to an increase in interest income of approximately \$266,000 and the reimbursement of prior year tri-party project costs of approximately \$354,000. The Township was able to maintain expenditures at a level consistent with prior year by good expenditure control. The decreased spending related to the tri-party project, election costs, and overall good administrative cost controls, including the decrease in staffing costs within the assessor's office, allowed the Township to absorb increases in the cost of building and planning within public safety, increases in the investment of capital, increases in the support of recreation and culture costs, as well as absorbing standard salary increases in the current year.

We commend the Township board, as well as department heads and staff, for their success with budgeting and financial management during these times of declining or at best stagnant revenue growth from municipalities' main revenue sources. As discussed later in this communication in the state-shared revenue and property assessment cap comments, both the State's revenue shortfall and the limited growth in existing properties due to Proposal A will continue to have a negative impact on General Fund revenues. In addition, we caution the Township that some cost-cutting measures, as well as revenue received in 2005, will not be available in 2006. To determine the long-term implications of these items, the Township may want to consider developing a multi-year operational and capital plan for its operating funds.

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State-shared Revenue

As you are aware, the continuing budgetary challenges faced by the State impact the Township through its revenue-sharing payments, which are the second largest revenue source for both the General Fund by itself and the governmental activities as a whole. While the drastic declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase significantly without significant changes to the State's revenue structure. At this time, revenue-sharing payments for fiscal year 2006 are anticipated to be just slightly below the 2005 levels (99.3622 percent of 2005 levels), and the 2007 projected budget is level with 2006.

It is important to recognize that the authority for the statutory portion of revenue sharing terminates at September 30, 2007. This portion represents approximately \$100,000 of the \$2,231,000 estimated distribution for 2006. We have not heard any significant discussion in Lansing regarding the plans for renewal at this time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue-sharing program. We will continue to update the Township as developments occur.

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2005	2.3%	1999	1.6%
2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%	1994	3.0%

The 2005 inflation factor was used for property taxes levied for the Township's calendar year 2006. Property taxes are the Township's largest source of General, Police Protection, and Fire Protection Fund revenues. However, as indicated above, growth in existing property taxes is significantly limited due to Proposal A. This factor should be considered when the Township is performing long-term financial planning.

Also, as you recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth on the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the Township is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. Currently, the charter mills are 1.4100 versus the Headlee limited mills of .9322. In previous years, the Township had been levying the allowable Headlee limited mills. For the year ending December 31, 2006, the Township has reduced its levy to .8200.

Internal Control and Fraud Prevention

During the current year, we were again required to perform the extra inquiries and testing required by Statement on Auditing Standards Number 99 (SAS 99), *Consideration of Fraud in a Financial Statement*. The Board should be pleased to note our testing did not reveal any material weaknesses not already addressed by the Township.

Legislative and Other Matters

Personal Property Tax

As you are aware, several years ago the State Tax Commission approved new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments). The Township, like many communities, elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables, which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld.

In addition, an agreement has recently been reached with DTE Energy to settle all current and outstanding utility appeals with Detroit Edison Company and the Michigan Consolidated Gas Company. The settlement is structured such that no money, in the form of tax refunds or additional taxes, need be exchanged between the utilities and local governmental units for the tax years of 1997 through 1999 that are under dispute. The Township has a written agreement that the previous liability of \$159,000 is no longer required to be paid back to the utility companies as long as the 2005 State Tax Commission tables are used in up to three future tax years. The Township is now using the 2005 State Tax Commission tables and this liability has been eliminated on the statement of net assets for the year ended December 31, 2005.

Condition of Accounting Records and Controls

Budget Amendments

As noted in the financial statement disclosures for the current year, the Township approved budget amendments for the 2005 fiscal year subsequent to December 31, 2005; however, these budget amendments that occurred after year end involved only transfers between funds to restrict monies in the appropriate fund for planned 2006 expenditures. For the Township to be in full compliance with the Uniform Accounting and Budgeting Act, all budget amendments, including transfers to other funds, should be approved prior to December 31 of each year.

Investment Policy

During the year, the Township held investments in mutual funds. Although the Township did have an adopted investment policy that allowed for investments in bonds, securities, and other obligations of the United States and Michigan government, it did not specifically authorize investments in mutual funds that are comprised of these types of investments. Although mutual funds are an allowable investment under the Michigan Compiled Laws Section 129.91, the Township's investment policy did not specifically authorize mutual funds as an investment choice. Subsequent to the investment in the mutual funds, the policy was amended to include mutual funds.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township's year end December 31, 2005, and is good for one year thereafter.

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

Plante & Moran, PLLC



Beth A. Bialy



Kathryn J. Kercorian